

Message Text

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ACTION AF-18

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01 USIA-15

AGR-20 SWF-02 IGA-02 DRC-01 /190 W
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R 19073Z JUN 74

FM AMEMBASSY DAR ES SALAAM

TO SECSTATE WASHDC 5661

INFO AMEMBASSY NAIROBI

AMCONSUL ZANZIBAR BY POUCH

LIMITED OFFICIAL USE SECTION 1 OF 2 DAR ES SALAAM 1990

DEPT PASS COMMERCE AND DOD

E.O.11652: N/A

TAGS: ECON, EFIN, TZ

SUBJ: TANGOV PRESENTS FY 74/75 BUDGET

REF: DAR ES SALAAM 1935 (NOTAL)

1. SUMMARY. TANZANIAN FY 74/75 BUDGET CHARTS NO NEW MAJOR POLICY DEPARTURES, BUT RATHER SEEKS TO TIDY UP PAST PROBLEMS. MAIN THRUST OF BUDGET SPEECH CONCERNS RECENT DROUGHT (AND RESULTANT POOR HARVESTS), HIGH COST OF ENERGY IMPORTS AND HOW THEY RELATE TO RAPIDLY DIMINISHING FOREIGN EXCHANGE RESERVES. REMEDIES: "HARD WORK AND DISCIPLINE...TIGHTEN OUR BELTS" AND SEEK MORE LOANS AND GRANTS FROM ABROAD TO COVER \$140 MILLION PROJECTED BALANCE OF PAYMENTS GAP. OUR GENERAL CONCLUSION IS THAT WHILE BALANCE OF PAYMENTS PROBLEM VERY SERIOUS, MSUYA, AT FIRST GLANCE, APPEARS TO OVERSTATE HIS CASE. YET OTHER EVIDENCE SUGGESTS THAT HE HAS UNDERSTATED FOOD IMPORT REQUIREMENTS WHICH COULD WIDEN HIS LIMITED OFFICIAL USE

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DEFICIT PROJECTED FOR THIS YEAR. IN BUDGET ITSELF, BIGGEST

QUANTITATIVE INCREASES ARE FOUND IN DEFENSE, POLICE AND BUDGETS OF REGIONS (ALL UP ONE-THIRD) AND PRESIDENT'S OFFICE (UP NEARLY TWO-THIRDS). END SUMMARY.

2. JUNE 12 BUDGET SPEECH (AVAILABLE IN ENGLISH JUNE 14) OF TANGOV FINANCE MINISTER MSUYA WILL NOT SERVE AS CHART FOR PLOTTING NEW PATHS FOR TANZANIAN SOCIALISM TO PLOD. ASIDE FROM BOOSTS IN TAXES ON ALCOHOLIC BEVERAGES (BEER--CHEAPEST VARIETY UP 25 PERCENT), IMPORTED TEXTILES AND CIGARETTES, ITEMS OF PARTICULAR INTEREST ARE AS FOLLOWS:

3. MSUYA LAID HEAVY EMPHAIS ON EFFECTS OF ENERGY CRISIS, DROUGHT CONDITIONS AND OUTLOOK FOR NATION'S BALANCE OF PAYMENTS WHICH HE TERMED "GRIM". AFTER PROJECTING BALANCE OF PAYMENTS DEFICIT OF \$140 MILLION, MSUYA NOTED PETROLEUM IMPORTS ARE ESTIMATED TO BE \$90 MILLION WHICH WILL BE \$56 MILLION ABOVE 1973 IMPORT FIGURE OF \$34 MILLION. FURTHERMORE TANZANIA "SHALL REQUIRE ABOUT 400,000 TONS OF GRAIN" COSTING \$126 MILLION. MSUYA'S PRIMARY SOLUTION TO THIS PROBLEM IS TO SEEK "EXTRA FOREIGN FINANCIAL ASSISTANCE TO BRIDGE THE PRESENT ABNORMAL FOREIGN EXCHANGE GAP."

4. BUDGET, ON DOMESTIC SIDE, CONTAINED FOLLOWING ITEMS OF INTEREST:

A. AS MILK SOP TO HIGH-INCOME BRACKET EXPATRIATES WORKING IN TANZANIA, MUCH DISCUSSED INCOME TAX BILL OF LAST WINTER WILL BE MODIFIED TO SET MAXIMUM TAX BITE OF 75 PERCENT. (FYI--THIS WILL AFFECT ONLY THOSE EARNING OVER \$46,000 PER YEAR. HOWEVER THOSE EARNING OVER \$22,500 PER YEAR AND RECEIVING FREE HOUSING WILL, HENCEFORTH, HAVE THIS BENEFIT TAXED AT MAXIMUM OF \$3,370 PER YEAR RATHER THAN 15 PERCENT OF INCOME AS IS PRESENTLY THE CASE. WHEN FREE HOUSING TAX BENEFIT IS ADDED INTO GROSS INCOME, THOSE EARNING OVER \$30,500 YEARLY PAY MODERATELY LOWER TAXES THAN BEFORE.)

B. CORPORATION TAX INCREASED BY 5 PERCENT TO NEW RATE OF 45 PERCENT.

C. PREVIOUS YEAR'S EFFORT TO STREAMLINE PUBLIC FINANCE CARRIED ONE STEP FORWARD BY ABOLISHMENT OF FERRY TOLLS AND COMBINING FIVE DIFFERENT PROPERTY TAXES INTO ONE "LAND RENT LIMITED OFFICIAL USE

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AND SERVICE CHARGE."

D. ANOTHER MANIFESTATION OF A DESIRE TO STREAMLINE GOVERNMENT OPERATIONS IS THE INCLUSION IN THIS YEAR'S BUDGET, FOR FIRST TIME, OF PROVISION FOR NEW "SPECIAL DEVELOPMENT FUNDS" WHICH WILL ENABLE SELECTED STATE-OWNED CORPORATIONS "TO BE RUN LIKE OTHER CORPORATIONS." \$18 MILLION WILL BE DIRECTED TO THAT END. THESE FUNDS WILL BE USED TO EXPAND TWO NEW SUGAR PLANTATIONS, TO MODERNIZE SISAL

ESTATES, TO START TEXTILE PRODUCTION EXPANSION PROGRAM, TO BUILD NEW BREWERY IN ORDER TO REDUCE BEER IMPORTS FROM KENYA, AND TO SET UP ZONAL TRAINING CENTERS "TO PROVIDE TRAINING FOR BETTER MANAGEMENT OF ACCOUNTS" OF UJAMAA VILLAGES. MOST OF THESE BUDGET ITEMS ARE TIED TO SPECIFIC SOURCES OF REVENUE.

E. SISAL EXPORT TAXES ALTERED TO PROVIDE LOWER TAX RATES WHEN WORLD PRICES DECLINE BELOW \$350 PER TON LEVEL AND HIGHER RATES WHEN PRICES ABOVE THAT AMOUNT.

F. SEVERAL REFERENCES TO FINANCIAL ACCOUNTABILITY PROBLEMS IN TANZANIA AND TRAINING PROGRAMS TO BE IMPLEMENTED WHICH WILL ATTEMPT TO CORRECT THIS CONTINUING PROBLEM WHICH PLAGUES THE ECONOMY.

G. TANZANIANS ARE URGED TO BE MORE PRODUCTIVE AND, IN CASE OF FARMERS, TO "KEEP FOOD RESERVES."

H. BUDGET REPORT NOTES "REASONABLE PROGRESS" HAD BEEN MADE ON COMPENSATION FOR NATIONALIZED PROPERTIES AND COMPANIES. THERE IS PROMISE, IN CASE OF COFFEE FARMS, THAT "WE SHALL BEGIN TO PAY COMPENSATION TO SOME NEXT MONTH."

5. AT TIME BUDGET SPEECH PRESENTED PARLIAMENTARIANS GIVEN COPIES OF GOVERNMENT'S \$280 MILLION BUDGET (29 PERCENT HIGHER THAN PREVIOUS YEARS). OF THE CAPITAL PORTION, \$307 MILLION, APPROXIMATELY 54 PERCENT WILL BE COVERED BY EXTERNAL GRANTS AND LOANS. THE MOST INTERESTING BUDGET ITEMS ARE:

A. DEFENSE--UP BY ONE THIRD TO \$80 MILLION. DEFENSE SPENDING IS 10 PERCENT OF TOTAL BUDGET WHICH IS SAME SHARE AS IT HAD PREVIOUS YEAR.

B. HOME AFFAIRS--UP BY ONE THIRD TO \$38 MILLION OR SLIGHTLY MORE THAN HALF OF DEFENSE BUDGET. EMPHASIS HERE IS ON POLICE MAIN FORCE, AIR WING AND CID.

C. REGIONAL BUDGETS ARE UP BY MORE THAN ONE-THIRD WITH CAPITAL SPENDING PORTION SLATED TO CLIMB BY A HALF.

D. PRESIDENT'S OFFICE--UP BY NEARLY TWO THIRDS TO LIMITED OFFICIAL USE

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\$10.2 MILLION. NEARLY ALL OF THESE FUNDS ARE LISTED AS "MISCELLANEOUS EXPENSES," AN ITEM WHICH JUMPED FROM 6.3 MILLION TO 10 MILLION. WE UNDERSTAND FROM MINFIN SOURCE THAT THIS ITEM COVERS "SECURITY, FRELIMO AND PAIGC" BUT HE COULD NOT BREAKDOWN AS TO WHO GETS WHAT.

E. OTHER ITEMS: NEW CAPITAL DEVELOPMENT AUTHORITY BUDGETED TO RECEIVE \$5 MILLION; NEW MINISTRY OF CULTURE AND YOUTH BUDGET IS TO RECEIVE \$1.5 MILLION WHILE "COMMITTEE FOR ESTABLISHMENT OF LEADERSHIP CODE" HAS ITS BUDGET REDUCED BY AND EIGHTH TO \$110,000. TANU BUDGETARY SUPPORT CONTRIBUTION INCREASED BY ONE THIRD (TO \$4.5 MILLION) TO COVER, PRESUMABLY, OUTLAY FOR 20TH ANNIVERSARY EXPENSES LATER THIS YEAR.

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6. COMMENT: MSUYA'S COMMENT IN BUDGET SPEECH THAT "WE SHALL HAVE SOME (FOOD) SHORTAGES...(BUT) MOST PARTS OF TANZANIA WILL GET NORMAL HARVESTS (THIS YEAR)" CONFLICTS WITH UR ESTIMATE WHICH IS BASED ON TALKS WITH OFFICIALS IN OTHER OFFICES OF TANGOV AND KNOWLEDGEABLE OUTSIDE SOURCES (REFTEL). WE ARE UNSURE WHETHER MSUYA AND MINFN SINCERELY BELIEVE THEIR ESTIMATE OR WHETHER HE IS SEEKING TO REASSURE TANZANIAN CITIZENS AND THEREBY FORESTALL HOARDING AND OTHER ATTENDANT PROBLEMS. MINFN ADVISOR TOLD EMBOFF THAT THEIR ESTIMATE OF HARVEST THIS SUMMER IS "70 TO 105 PERCENT" OF NORMAL. THUS 400,000 TONS OF FOOD GRAINS BEING IMPORTED IN FIRST THREE QUARTERS OF CY74 ARE QUITE ADEQUATE. ADVISOR OPINED ADDITIONAL 100,000 TONS THIS WINTER MIGHT BE NEEDED AS EMERGENCY STOCK. FORMER CHAIRMAN NATIONAL BANK OF COMMERCE, AMON NSEKELA, IMPLIED TO DCM, HOWEVER, THAT MSUYA'S HARVEST ESTIMATE SHOULD NOT RPT NOT BE TAKEN AT FACE VALUE. WE TEND TO AGREE. WHATEVER MSUYA SAYS, HOWEVER, IS NOT RELATED TO OTHER MINISTRIES' ACTIONS, I.E. TANGOV IS SEEKING TO ASSURE ADEQUATE FOOD STOCKS IN COUNTRY BY PLANNING SIZEABLE IMPORTS OF GRAIN.

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7. WE FIND MSUYA'S UNCOVERED BALANCE OF PAYMENTS GAP OF \$140 MILLION, AT FIRST GLANCE, TO BE BIT ON HIGH SIDE-- ASSUMING, AS HE SUGGESTS, THAT FOOD IMPORTS WILL NOT EXCEED \$126 MILLION LEVEL MENTIONED IN HIS BUDGET SPEECH. HOWEVER, IF FOOD IMPORTS MAINTAIN FLOW OF THE FIRST THREE QUARTERS OF CY74 INTO FINAL QUARTER OF CY, THEN GAP COULD BE \$20-25 MILLION GREATER. ON ANALYZING MINISTER'S ESTIMATES, AND USING EARLIER BALANCE OF PAYMENTS PROJECTIONS ACQUIRED FROM BANK OF TANZANIA, MSUYA FORECAST NO SIGNIFICANT IMPROVEMENT IN TANZANIAN IMPORT EARNINGS IN CY74. FURTHERMORE, MSUYA DOES NOT APPARENTLY CONTEMPLATE ANY WAY FOR TANGOV TO CUT BACK ON AMOUNT OF MERCHANDISE AND RAW MATERIAL IMPORTS. IN VIEW, WORLD-WIDE INFLATIONARY PRICE INCREASES, THESE IMPORTS MAY CONTRIBUTE TO A \$280 MILLION TRADE ACCOUNT DEFICIT THIS CY. PROJECTING, THEN, A \$140 MILLION SURPLUS ON INVISIBLES AND CAPITAL ACCOUNT, MSUYA'S PROJECT ON OF \$140 MILLION BALANCE OF PAYMENTS DEFICIT MAY WELL BE ACCURATE ESTIMATE.

8. DEFENSE BUDGET, ALTHOUGH HIGHER NEXT FY, LOOKS TO BE UNDERSTATED--PARTICULARLY \$30 MILLION CAPITAL BUDGET. WE HAVE HEARD REPORTS, FOR EXAMPLE, OF SIZEABLE SOVIET ARMS CONTRACTS AND PLANS TO PURCHASE \$30 MILLION WORTH OF HELICOPTERS. THESE FOREIGN ARMS PURCHASES ALONE WOULD PUSH THE CAPITAL BUDGET FIGURE ABOVE THAT GIVEN IN THE CURRENT BUDGET. WE DO NOT HAVE HA4D INFORMATION HOWEVER IN THIS AREA. CARTER

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